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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

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CIVIL DIVISION

April 28, 1970

Dear Mr. Bruce:

The General Accounting Office has made a review of the policies, procedures, and practices relative to the taking of cash discounts on voucher payments in fiscal year 1969 by the Indian Affairs Data Center (Data Center), Bureau of Indian Affairs (Bureau), Albuquerque, New Mexico. Our review was performed primarily at the Data Center and at the Navajo Area Office, Gallup, New Mexico.

Cash discounts are frequently offered by commercial firms as an inducement to a purchaser to pay bills promptly. The discount period on Government purchases begins on the date the goods are received or the date of receipt of a correct vendor's invoice at the designated billing point, whichever is later, unless the contract or invoice specifically states otherwise. If the last day of a discount period falls on a Sunday or holiday, the next workday is within the discount period. If payment is not made within the discount period, the gross amount of the invoice must be paid.

Discounts should be taken when the vendor has made an express offer of discounts, including instances where the invoice contains discount terms even though the bid, contract, or other document is silent on discounts or provides for payment without discounts. It is the Bureau's policy to process discount vouchers promptly in order to obtain the discounts offered to the Government.

The functions of the Indian Affairs Data Center, Albuquerque, New Mexico, include the processing of invoices and billing documents received from area offices of the Bureau to ensure prompt and accurate payment. Payment is made by the Regional Disbursing Officer, U.S. Treasury, Denver, Colorado.

The various field and area offices of the Bureau are required by Bureau regulations to submit receiving reports, invoices, and related documents to the Data Center. These documents show that the items or services have been accepted by the Government and that payment should be made. A disbursements branch within the Data Center performs the processing and scheduling of vouchers for payment by the U.S. Treasury.

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In January 1970 the Assistant Director, Internal Audit, advised us that his staff had not performed an audit of the Data Center since the Center was established in 1966. He stated, however, that an audit by his staff was in progress at the Data Center and that such audit would include an examination to ascertain whether cash discounts were taken. He advised us also that, as a general practice, the internal audit staff examines into the payment activity of other organizational components of the Department of the Interior and that such examinations include steps designed to ascertain whether discounts are taken.

ADDITIONAL COSTS INCURRED DUE
TO LOST CASH DISCOUNTS

Our review showed that the Bureau incurred additional costs in fiscal year 1969 because the Data Center did not take all cash discounts offered on invoices processed for payment. During fiscal year 1969, the Data Center processed 22,133 vouchers. On the basis of statistical sampling techniques, we selected 200 vouchers for review. The 200 vouchers examined covered 1,377 subvouchers on which 90 discounts, totaling \$3,207.15 were offered. We found that (1) 61 discounts, totaling \$1,469.49 were lost, (2) 26, or 13 percent of the 200 vouchers examined, contained one or more subvouchers on which discounts were lost, and (3) the average discount lost on the 26 vouchers was \$56.52.

If the average discount lost on the vouchers in our sample is representative of discounts lost on all vouchers processed by the Bureau in fiscal year 1969, we estimate that the total discounts lost would approximate \$163,000.

Further evidence of the frequency and extent of lost discounts was shown by our review of all fiscal year 1969 payments on 287 subvouchers under four selected contracts. Total purchases under the four contracts during the fiscal year amounted to \$448,032.19 and the total discounts offered amounted to \$54,544.62. We found, however, that on 248 subvouchers \$39,234.28 of the offered discounts were lost. Of 824 available discounts on purchases under the contracts 649, or 79 percent, were lost.

The loss of cash discounts was due to (1) processing delays in field and area offices, (2) processing delays at the Data Center, and (3) failure to take discounts on bills paid within the discount period. These conditions, in our opinion, were the result of inadequate control, supervision, and review of the payment activity.

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Processing delays at field and area offices

Many discounts were lost because receiving reports, invoices, and related documents were not processed by the field and area offices to the Data Center in time for payment to be made within the discount period.

Discounts were lost on 309 of the 1,664 subvouchers we reviewed. On 202, or 65 percent, we found that receiving reports and invoices were received at the Data Center on either the last day or after expiration of the discount period. Also, field and area offices did not consistently date stamp discount documents on receipt and, thus, in many instances the period of time that the documents were held at a specific location could not be determined.

To examine into the reasons for delays being encountered at area and field locations in processing payment documents containing offered discounts, we visited the Navajo Area Office and inquired into their procedures. Area officials advised us that the Area Office is the focal point for the accumulation and processing of invoices, receiving reports, and related documents for all activities under their jurisdiction. They stated that the Area Office reviewed such records for accuracy and completeness, extracted certain information for accounting purposes, and forwarded the records to the Data Center for final processing for payment.

An Area Office official advised us that it should require a maximum of 4 days to process payment documents in the Area Office. We found, however, that in many cases the Area Office took substantially in excess of 4 days to process the documents and, in one case, took 25 days. Area officials told us that the Area Office had not issued specific instructions for implementing the Bureau's policy that documents involving cash discounts be handled promptly. They stated, however, that based on our findings, it was evident that there was a lack of awareness on the part of some personnel of the need for prompt handling of documents involving discounts.

Prior to the completion of our review, the Navajo Area Office issued formal instructions for the special handling of invoices and related documents subject to discounts. These instructions provided specific steps to be taken at field locations to expedite the movement of the documents to the Area Office. The instructions provided, among other things, for recording the date of receipt on delivery tickets and invoices and for flagging invoices subject to discounts for special handling.

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Processing delays at the Data Center

The Data Center, in our opinion, had not established an effective system for the prompt processing of payment documents involving cash discounts. As a result, many discounts were lost although the necessary payment documents were received at the Center in ample time for payment to be made prior to the expiration of the discount period.

Bureau policy provides that in the examination of vouchers, priority handling will be given to all discount vouchers. The Data Center had not issued formal procedures implementing this policy. We found, however, that operating personnel had received informal instructions that payment documents involving discounts were to be appropriately tagged for identification and processed ahead of other payment documents. A Data Center official told us that under the procedures in effect during the period of our field work, invoices offering discounts should have been processed for payment by the Data Center in a maximum of 5 days after receipt of the required documentation.

In our examination of vouchers involving 710 lost discounts, we found 210 instances where the Data Center took 6 days or longer to process invoices for payment. In 81 of the 210 instances, the discounts were lost because of processing delays at the Data Center. Data Center officials advised us that they were not aware of the extent of discounts being lost nor could they offer any definite explanations for the processing delays.

Before our review was completed, the Data Center issued operating instructions dated October 27, 1969, which set out in detail the priority handling for discount vouchers at the Data Center. These instructions provide, among other things, for the processing of discount documents on the same day they are received and for prompt investigation, documentation, and reporting to the Chief, Disbursements Branch, of the circumstances surrounding the loss of any discount.

The instructions further provide that a "Lost Discount Report" must be prepared on each discount lost and forwarded by a unit supervisor to the Branch Chief for approval. Each month a copy of each "Lost Discount Report" is required to be sent to the offices submitting vouchers for payment.

Discounts not taken on payments made within discount period

We found that the Data Center processed a number of vouchers for payment within the discount period but did not take the discounts offered. Our review of 914 offered discounts showed that 94 discounts

totaling \$4,732.51 were not taken on payments made within the discount period.

Disbursements Branch personnel could offer no definite explanation for these lost discounts. Some possible reasons advanced included (1) priority processing instructions were given orally rather than in writing, (2) lack of an adequate training program for voucher examiners, (3) carelessness, and (4) voucher examiners computed the discount period solely on the basis of the receiving report date rather than on the basis of the receiving report date or the date of receipt of the invoice, whichever was later.

Regarding the lack of an adequate training program, a Data Center official stated that, in the light of our findings, an adequate training program should be established. Prior to the completion of our review, the Data Center issued instructions for the establishment of a training program for personnel in the voucher section and for regular follow-up to ensure that the training is effective. Further, the Data Center issued Bills for Collection to the suppliers identified in our review whose discounts were not taken although their invoices were paid within the discount period.

Action taken by the Bureau of Indian Affairs

After we brought our findings to the attention of Bureau officials, the Acting Assistant Commissioner of the Bureau of Indian Affairs issued a memorandum to all Bureau offices pointing out the need for the prompt handling of discount documents. The memorandum, which was dated September 15, 1969, requires (1) the date and place of receipt of each discount document to be recorded on each document, (2) each discount document to be clearly identified for expeditious handling, and (3) each discount document to be processed and transmitted the same day it is received.

It further provides that discount documents that cannot be processed to the Data Center in time for the discount to be taken, should be scheduled and certified by the area office and forwarded directly to the Regional Disbursing Officer for payment. As discussed previously in this report, the Chief, Disbursements Branch, of the Data Center in a memorandum dated October 27, 1969, issued instructions on the processing of discount vouchers at the Data Center.

In a letter dated February 20, 1970, commenting on a draft of this report, the Director of Survey and Review, Department of the Interior, advised us that an analysis of cash discounts was made for the month of December 1969. The analysis showed that out of 871 vouchers offering discounts, 705 discounts were taken totaling \$11,494.89. He stated that a large percentage of discounts were still being lost on vouchers

offering discount terms requiring payment in less than 20 days but that, with increased emphasis, these discounts will also be taken

The Director stated that a Bureau headquarters official had been assigned responsibility for continuing overview of the analysis of the lost discount report. This action was taken in response to the proposal in our draft report that information being accumulated by the Data Center for its monthly reports on lost discounts, to offices submitting vouchers for payment, be submitted also to a Bureau headquarters official for review and evaluation until such time as the problem of lost discounts is under control.

We believe that the actions taken by the Bureau, if properly implemented, should result in improved management controls over cash discounts offered on payment vouchers.

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While we plan no further reporting of this matter, we would appreciate being advised of the collections made by the Data Center from the suppliers, identified to Data Center officials during our review, whose discounts were not taken although their invoices were paid within the discount period. We wish to express appreciation for the cooperation extended by Bureau officials during our review.

Sincerely yours,



Allen R. Voss
Associate Director

The Honorable Louis R. Bruce
Commissioner, Bureau of Indian Affairs
Department of the Interior